Accounting concept is a term used to describe the basic principles, rules, and assumptions which operate as the foundation of recording all business transactions and organizing accounts (Fetyko, 1980). The main aim of accounting concepts is to uphold consistency and uniformity in the accounting records of the business (Eisen, 2000). The concepts have been practiced for many years, hence they are accepted rules that govern account recording. The following are the various accounting concepts provided by professional essay writing service:

1. Business entity concept

For accounting purposes, this concept assumes that the business and its owners are two distinct and independent entities (Fetyko, 1980). This means that the personal transactions and business are separate. For example, an investment made by the owner into the business is recorded as a liability of the firm to the owner. Similar case applies when the owner withdraws cash from the business for personal use. This is not recorded as a business expense.

For example; Suppose Mr. White started a business by investing USD 100, 000. Purchased goods worth USD 40, 000, furniture USD 20, 000, and machinery for USD 30000. The remaining USD 10, 000 were allocated as cash at hand. These 10,000 are the business's asset, not the owners. It is treated as the firm's capital.

Suppose that on another occasion Mr. White takes away USD 5, 000 for personal use. This withdrawal is recorded as an expense termed as drawings. Thus, the concept of business entity holds.

Significance

- Helps in establishing profit of the business as the expenses and revenues only that are recorded as all the private withdrawals are ignored.

- This concept restricts accountant from recording owners transactions
- This concept is the basis of the accounting principles, concepts, and conventions

2. Money measurement concept

This concept assumes that all transactions carried out by the business must be in terms of money. This is in the currency of the country. According to this concept, all transactions that can be expressed in terms of money must be recorded in the accounts' books.

For example, a firm bought goods worth USD 40, 000 and paid rent of USD 10, 000. This transactions are recorded because they are in monetary terms. Transactions such as sincerity, honesty from employees, and loyalty cannot be measured in terms of money.

Another characteristic of this concept is that records of all transactions are not to be retained in physical terms but in monetary unit. For example, an organization has 10 acres of land, office building with 50 rooms, and 100kg of raw materials. For accounting purposes, these are recorded in monetary units. The piece of land maybe cost USD 30, 000. Therefore, the records will be entered in terms of the monetary units.

Significance

- Guides accountants on what is to be recorded
- Helps in maintaining uniformity in recording business transactions
- Facilitates comparison of the performance of the business in different accounting periods.
- With the recording of all transactions in monetary terms, it is easier to understand the accounts.

3. Going concern concept

States that a firm will carry on with its activities for an uncertain period of time. This means that a business has continuity of operations. The business, therefore, is not expected to dissolve in a near period. This assumption is important for it gives the basis for determining the worth of assets in the accounts (Fetyko, 1980).

For example, a company purchases machinery of USD10, 000 with a life span of 15 years. To this concept, shows that the life of a business is not defined.

Significance

- Aids in preparation of financial statements
- Assures investors that they will continue getting their revenue
- Without the principles of this concept, cost of fixed assets would be accounted as an expense
- A company is judged in its ability to earn revenue in future

4. Accounting cost concept

It is also known as historical cost concept. This concept requires that assets recorded in the book of accounts should be recorded at their purchase price and not market price. Purchase price includes the transportation and installation cost.

For example, XYZ limited bought machinery at USD 90, 000. The transportation cost was USD 1000. The total amount recorded in the books of account would be USD 91, 000. This cost is also referred to as historical cost. This concept clarifies that the cost recorded is the acquisition value and not the current market value.

Significance

- Aids in calculation of depreciation on fixed assets
- The impact of this concept is that if the firm does not pay for any cost such as transportation of an asset then the transaction is not recorded.
- Shows the price at which a firm has acquired an asset

5. Dual aspect concept

This provides the basis of keeping records of a firm's transaction. It assumes that any transaction has a double impact. This means that it affects two accounts on opposite sides. Hence, recording should be done on two sides. For instance, purchase of good by cash has two aspects: receiving cash and cash payment. The dual aspect is expressed by a fundamental expression

Assets=Liabilities + Capital

The equation shows that assets are equal to the outsiders claim and owners claim of the company. What the concept tries to imply is that all transactions have an impact on liabilities and assets such that the equation above is upheld (Horngren & Harrison, 1989). For example, capital investment means receipt of cash into the business and also increase in the owner's equity.

Significance

- Aids in error detection

6. Accounting period concept

In this concept, all transactions are documented in the accounts book with the assumption that revenue on the transactions are to be verified within a certain period of time. This concept necessitates the drawing of profit and loss accounts and balance sheets at consistent intervals. This is important for tax computation, determining the firm's financial position and calculation of profit.

This concept also assumes that the life of a business is divided into parts. These parts are referred to as accounting periods. They may be a month, six months, or one year. One year is commonly used as an accounting period by most firms (Horngren & Harrison, 1989). This is called a financial year. According to this concept, all transactions made within the specified period are recorded separately from other accounting periods.

For example, if a firm is started on the 20/05/2012, its financial year begins on that date and it maybe decided to end on the 31/12/12. This is what is referred to as the accounting periods.

Significance

- Helps creditors and financial institutions to monitor the performance of the firm within a particular period.
- Useful in predicting the prospects of the company.
- Helps in the distribution of dividends by the company at constant regular.
- Aids in computation of tax on business revenue

7. Realization concept

Realization is the creation of the lawful receivership of money (Eisen, 2000). Therefore, this concept implies that no transaction should be made on revenue made until realized. In short, profit is realized when cash is received on goods sold.

For example, Bob sold goods worth USD 5000 in 2009. Goods were delivered in the same year. The profit Bob made in 2009 was USD 5000 since goods were delivered on the same year.

8. Accrual concept

Accrual is the accumulation of money that has not been paid yet paid to the business. This is especially money that not been paid within an accounting period. This means that revenues are only recorded when cash is made receivable whether paid or not (Eisen, 2000). Both transactions are recorded. Accrual concept makes an assumption that, revenue is realized at the moment payment is made.

For example, a firm sells goods worth USD 3000 on 25/03/2006. Payment is due on 10/03/2006. It should be accounted for during the financial year ending 31/03/2006. Payment will only be recognized if paid before accounting period is over.

Significance

- Aids in recognizing actual revenues and expenses
- Helps calculate annual profit

9. Matching concept

In this concept, expenses and revenues incurred to generate revenues belong to the same financial year. This means that once revenues are collected, next action is to allocate the revenues and expenses to the respective accounting periods. Revenues generated during a

financial year, received or not during the period should be recorded accordingly so as to determine loss or profit.

Significance

- Determination of the actual profit is beneficial to shareholders or investors
- Matches revenues and expenses to determine the profit of loss of an accounting period.

The basic concepts of accounting are guidelines that guide an accountant at a particular company. Every firm requires a uniformity and consistency in its transactions recording, therefore, the basic concepts overall maintains to verify that accounts are kept accurately.

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